

Report to Strategic Priorities & Policy Committee

To: Chair and Members
Strategic Priorities and Policy Committee
From: Anna Lisa Barbon, Deputy City Manager, Finance Support
Subject: Area Rating Policy Review
Date: May 18, 2021

Recommendation

That, on the recommendation of the Deputy City Manager, Finance Supports, the following actions be taken with respect to area rating to inform the upcoming 2025 Development Charges Background Study:

- a) The attached report and memo from Hemson Consulting on area rating **BE RECEIVED** for information; and
- b) That Civic Administration **BE DIRECTED** to proceed with an area rating policy review that focuses on the Development Charge services for Wastewater, Stormwater and Water Distribution.

Executive Summary

The purpose of this report is to provide Council with background information regarding area rating and advice on the next steps on an area rating policy review as part of the 2025 Development Charges (DC) Background Study process. Based on the attached memo from Hemson Consulting, it is recommended that the review be focused on the DC services for Wastewater, Stormwater and Water Distribution.

For these services, five area rating options are proposed for further investigation. Through the area rating policy review, each area rating option will be examined for the recommended DC services, will include consultations held with stakeholders on findings, and a preferred option or options will be recommended for Council consideration.

Linkage to the Corporate Strategic Plan

This report supports the 2019-2023 Strategic Plan for the City of London through the Building a Sustainable City strategic area of focus by advancing the growth and development policies of the London Plan through enhanced implementation tools.

Analysis

1.0 Background Information

1.1 Previous Reports Related to this Matter

January 29, 2018 – Strategic Priorities and Policy Committee – 2019 Development Charge Study Area Rating Policy Review

1.2 Background

In 2015, the *Development Charges Act* (DCA) was amended to provide municipalities with the option to consider area-specific development charges or 'area rating'. While the requirements of the Act do not compel any use of specific area rate charges, the Act now includes a requirement that Council 'consider the use of more than one DC by-law to reflect different needs for services in different areas' (Section 10(2) c.1).

The London Plan includes a policy that is consistent with this direction in the DCA:

1573.(7) The City will consider, as part of a development charges study, an area rating approach to recognize that the costs of growth in certain areas of the city may be substantially different from the costs of growth in other areas of the city.

As part of the 2019 Development Charges Background Study process, Staff initiated an area-rating policy review. At its January 30, 2018 meeting, Council resolved to continue with the approach of distinguishing rates inside and outside the Urban Growth Boundary. However, Council also directed Civic Administration to ‘continue its analysis to review services that are candidates for differential recovery areas, and that the City work towards an area rating servicing policy to be implemented beyond 2019.’

To inform the 2025 Development Charges Background Study, Hemson Consulting has been retained to assist in undertaking an area rating policy review. To provide background and establish parameters for the review, Hemson has prepared an Area Rating Options Memo that is attached to this report.

2.0 Discussion and Considerations

2.1 Area Rating Policy Review

The attached memo sets out guiding principles and directions for area rating, identifies service-based considerations, and presents options to assist in scoping an area rating policy review. Based on service-specific considerations and London’s service delivery context, Hemson has identified three DC services as candidates for area rating that warrant further consideration: Wastewater, Stormwater and Water Distribution.

For these services, five area rating options are presented for further investigation:

1. **Uniform City-Wide Rate (No Area Rating):** All development charges levied on a uniform, municipal-wide basis.
2. **Maintain Current Model (Inside UGB/Outside UGB):** Wastewater, Stormwater and Water are not charged outside of the Urban Growth Boundary (UGB).
3. **Add Intensification Area Rate (Built-Area Boundary):** Applicable when substantive servicing cost differences exist between lands within the Built-Area Boundary and remainder of lands within the Urban Growth Boundary.
4. **Service Area-Based:** Applicable when service areas are distinct and clearly delineated, and where substantial cost differences exist.
5. **Add Area Rate to Future UGB Expansion Areas:** Area-specific charges applied to new greenfield areas to fund upfront costs required to enable development to occur in those areas.

2.2 Next Steps

Over the coming months, Staff will work with the Wastewater, Stormwater and Water Distribution service areas to obtain the information needed to investigate in detail the five options. Each area rating option will be examined, consultations will be held on findings with internal and external stakeholders, and a preferred option or options will be recommended for Council consideration.

It is anticipated that recommendations will be presented to Council for consideration in late 2021 to inform 2025 Development Charges Background Study preparation. An area rating approach needs to be confirmed prior to conducting growth allocations to geographic locations throughout the city, and prior to the fulsome commencement of infrastructure master plans. As the chosen area rating approach informs the modelling of cost allocations and resultant DC rates for eligible infrastructure, this is a critical path item. It will be extremely challenging to revise the area rate approach once draft DC rates are calculated and the full impacts are known. As such, Staff will provide as much information as possible on the financial implications when the area rating policy review recommendations are brought forward.

2.3 Consultation

DC area rating has been discussed with the DC External Stakeholder Committee on several occasions. The Committee, which has been reconstituted to support the 2025 Development Charges Background Study process and is comprised of development and community organization stakeholders, has been circulated the attached memo and have had opportunities to provide comments.

Members indicated that overall, the current model which differentiates costs for DC Wastewater, Stormwater and Water services between inside and outside the Urban Growth Boundary is working well. While some members had concerns with further differentiating DC rates, others identified that the review presents an opportunity to examine the merits of alternative approaches in detail. All members acknowledge the need to consider area rating as part of the 2025 Development Charges Background Study process. The DC External Stakeholder Committee will continue to be regularly consulted at each step of the upcoming area rating policy review.

3.0 Financial Impact/Considerations

There are no direct financial expenditures associated with this report. Financial considerations for the recommended area rating approach will be presented in future reports.

Conclusion

The purpose of this report is to provide Council with background information regarding area rating and advice on the next steps on an area rating policy review as part of the 2025 Development Charges (DC) Background Study process. It is recommended that the review be focused on the DC services for Wastewater, Stormwater and Water Distribution.

For these services, five area rating options are proposed for further investigation as noted in this report. Through the area rating policy review, each area rating option will be examined for the recommended DC services, will include consultations held on findings with stakeholders, and a preferred option or options will be recommended for Council consideration.

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MEMORANDUM

To: Paul Yeoman, City of London
From: Craig Binning and Julia Cziraky
Date: April 13, 2021
Re: City of London 2025 DC Study: Area Rating Options

This memorandum is intended to guide preliminary discussions around area rating options for the City of London as part of its 2025 Development Charges Background Study. Following an initial discussion around guiding directions and service-based considerations, five options are presented for the City of London, along with relevant examples from other jurisdictions.

A. BACKGROUND

In accordance with the *Development Charges Act* (DCA), a development charge background study must include:

...consideration of the use of more than one development charge by-law to reflect different needs for services in different areas (s. 10(2)(c.1))

The City's Official Plan, the *London Plan*, also requires consideration for area rating:

The City will consider, as part of a development charges study, an area rating approach to recognize that the costs of growth in certain areas of the city may be substantially different from the costs of growth in other areas of the city. (Policy 1573_7)

As part of the City's 2019 DC process, staff brought forward a report addressing area rating. At that time, Council resolved to continue with the approach of distinguishing rates inside and outside of the Urban Growth Boundary. However, Council directed administration to "continue its analysis to review services that are candidates for differential recovery areas, and that the City work towards an area rating servicing policy to be implemented beyond 2019".

City staff are moving forward with this direction as part of the early stages of the 2025 DC Background Study process.

B. GUIDING PRINCIPLES AND DIRECTIONS

Drawing from Hemson's experience in other jurisdictions, and through discussions with City staff, the following set of principles and directions will guide the consideration of various approaches to area rating for the City of London:

- Service areas should be of a sufficient geographic scale;
- There should be meaningful cost / rate difference between the service areas; and
- Any additional administrative burden should be minimized.

These directions have informed the area rating options review below.

C. SERVICE-BASED CONSIDERATIONS

This section describes key considerations and typical DC calculation approaches for each service for which DCs are currently levied in the City of London, supported by several municipal examples. Area rating is most typically restricted to engineered services, although there are several examples of area rating for general services within a small number of Ontario municipalities.

i. Parks, Recreation, and Library

These services are typically calculated and levied on a municipal-wide basis for the following reasons:

- Facilities / parks are open and accessible to all residents in the municipality;
- Needs are established and planned for based on municipal-wide population growth;
- Usage data often show that individuals use facilities and parks both close to home and close to places of work, supporting a municipal-wide approach;
- For library services, the increasing availability of online / digital material supports a municipal-wide approach;

- Different indoor recreation facilities have different functions (i.e. some have pools, specialized gym facilities, specialized facilities such as indoor soccer) and are destination centres attracting residents from across the municipality; and
- Use of parks and recreation facilities by sports leagues and other specialized classes also supports a municipal-wide approach.

While area rating of these services is rare, it may be considered in municipalities with central locations that have well established facilities with sufficient capacity to meet the anticipated needs arising from intensification. This can serve as a rationale for a lower DC rate in central locations. Ottawa applies a hybrid approach, with City-wide charges for recreation and library in addition to area rated DCs for the broad areas of inside the greenbelt, outside the greenbelt, and rural areas.

For parks, municipalities may consider area rating to account for typically higher development costs of parks in urban areas. Ottawa also uses this approach, charging an additional parks DC inside of the greenbelt to fund urban parks, which is layered on top of the City-wide parks DC.

Unlike Ottawa, London does not have clear geographical areas among which there would be any significant difference in the nature of parks, recreation, and library service delivery. As such, a City-wide approach to the calculation and applications of these DCs will most likely continue to be appropriate.

ii. Protection Services (Fire and Police)

Like parks, recreation, and library, protection services are provided to all residents and employees in the municipality and are generally provided for based on municipal-wide growth.

There is potentially some basis for area rating of Fire services as stations, or groups of stations, have defined main response areas: development pressures in part of a municipality may drive the need for station relocations and expansions. Likewise, as fire services are planned for based on response times, areas of intensification can result in higher traffic congestion thereby slowing response times and requiring additional fire infrastructure needs. Ottawa layers City-wide fire DCs with additional area-specific DCs for the outside the greenbelts and rural areas. Kitchener historically did not levy a fire DC in its Central Neighbourhood, until a City-wide approach was introduced in 2019 based on new servicing needs.

Police services are generally viewed as being less sensitive to development location and density. Hemson is not aware of any municipalities that apply an area-specific approach to the calculated of police services DCs.

In London, fire and police services are planned for and delivered on a City-wide basis, and driven by overall population, employment, and household growth. As such, a City-wide approach for these services will likely continue to be appropriate.

iii. Waste Diversion

Waste diversion services are also driven by, planned for, and delivered on a municipal-wide basis, with typically no significant differences in service delivery or cost across geographic areas. Hemson is not aware of any municipalities that have introduced area rating for waste management services DCs.

iv. Transit Services

Transit services are typically viewed on a service area basis with a uniform charge across the entire service area. Some transit service providers that service large areas, or provide high-order transit, have examined area rating based on service availability. However, it is difficult to determine the starting location of all trips – park and ride lots are typically available at the “end points” of transit services allowing those that reside outside of the geographic service area to still utilize and benefit from the service. There is also some argument that non-transit users, whether by choice or location, benefit from transit service through reduction in road congestion and other environmental benefits.

There are few examples of area rating for transit services. These include the Region of Waterloo, where transit DCs are levied only within the Cities, and not within the Townships, and Ottawa, which provides a partial exemption within the rural area.

Like most municipalities, London does not have defined benefitting areas for transit services; all residents benefit from the provision of both conventional and higher-order transit. An area-specific approach to transit DCs is not likely to be appropriate.

v. Roads and Related Services

Roads & related infrastructure is typically levied on a uniform municipal-wide basis as roads are typically planned for based on municipal-wide population and employment growth (and trip rates), and transportation systems are integrated networks, with improvements in one area providing rolling benefits across the network.

There are several municipalities that levy both a municipal-wide roads charge and additional area-specific road charges. In some cases, the area-specific roads charge typically covers more localized roads works (in some municipalities these would be considered a local service and a direct developer responsibility). Some also include some collector roads within the area-specific charges. Vaughan, Markham, and Richmond Hill's DCs include area rating for roads and related services. A small portion of Ottawa's roads charges are recovered based on the three major geographic areas (inside the greenbelt, outside the greenbelt, rural). Windsor levies a separate roads and related charge for its Sandwich South Planning District, a greenfield area with distinct transportation servicing needs to enable development to occur.

Like most municipalities, London has an integrated transportation network that is planned for based on municipal-wide population and employment growth. A City-wide approach will likely continue to be appropriate.

vi. Water Supply and Wastewater Treatment

Water supply and wastewater treatment are typically levied on a uniform municipal-wide basis, as supply and treatment of water and the treatment of wastewater is not sensitive to the location of the benefitting development. There may be situations in which a municipality has different water supply sources/plants and different wastewater treatment facilities – in this situation the DC rates may vary by the service area of the facilities. An example is the Township of Springwater, which has multiple distinct, geographically separated water services areas with area-specific DCs. However, this is not the case in the City of London.

vii. Water Distribution, Wastewater Collection, and Stormwater

The majority of municipalities levy these DCs on a uniform basis as these systems are often highly integrated and looped. However, there are a number of municipalities that do use DC area rating for all, or a share, of these services to reflect differences in service needs and costs. This is generally done on the basis of:

- Multiple delineated services areas (e.g. Innisfil, Peterborough, Blue Mountains); or
- New growth areas (e.g. Windsor's Sandwich South Planning District; Brantford's proposed DCs for the boundary expansion lands).

In London, these services are provided within the Urban Growth Boundary. Outside of the Urban Growth Boundary, DCs are not charged for these services. The 2025 DC Background

Study may consider opportunities for further delineation of water, wastewater, and stormwater service areas within the Urban Growth Boundary.

D. AREA RATING OPTIONS

Based on the above service-specific considerations, and in consideration of the City of London's service delivery context, it is recommended that area rating be considered only for the services of Wastewater, Stormwater, and Water Distribution. Below, five options are presented for the City. Each of these options would be "revenue neutral"; they would each result in the same overall DC revenues for the City.

i. Option 1: Uniform City-Wide Rate (No Area Rating)

The majority of municipalities in Ontario levy all development charges on a uniform, municipal-wide basis. However, in London, City Wastewater, Stormwater, and Water Distribution services are not provided in locations outside of the Urban Growth Boundary (UGB), and therefore it would not be appropriate to levy DCs for these services in rural locations. As such, a true uniform City-wide approach would not be recommended for the City unless there is a substantive change to service delivery.

ii. Option 2: Maintain Current Model (Inside UGB / Outside UGB)

The City currently levies DCs for Fire, Police, Library, Parks & Recreation, Transit, Waste Diversion, and Roads & Related Services on a uniform, City-wide basis. Wastewater, Stormwater, and Water Distribution DCs are levied on development within the Urban Growth Boundary on a uniform basis, while development outside of the UGB is not subject to these charges as those City services are not extended to rural areas. This results in lower overall DC rates outside of the UGB.

Maintenance of this approach will likely continue to be defensible if it is determined through the 2025 DC Background Study that these services are:

- Driven by overall population and employment growth;
- Integrated and looped; and/or
- There are no major service delivery and cost differences between communities or service areas within the UGB.

iii. Option 3: Add Intensification Area Rate

The City may also choose to maintain its current general approach to locations outside and inside of the UGB, while adding a third “Intensification Area” rate for the Wastewater, Stormwater, and/or Water Distribution DCs. This approach would be appropriate if it is determined that substantive differences existing in the cost of service delivery within the Intensification Area as compared with the remainder of the lands within the UGB.

Several municipalities take a similar broad approach to the delineation of service areas and calculation of rates:

- In **Ottawa**, most services include a component where area rates are calculated based on the broad areas of Inside the Greenbelt, Outside the Greenbelt, and Rural. The Rural category is further broken down into Serviced and Unserviced areas, based on whether City water and wastewater servicing is provided. Inside the Greenbelt, the water and wastewater DCs are lower than Outside the Greenbelt, due to available capacity within the existing system.
- Similarly, **Kitchener** maintains separate engineered services DC for its Central Neighbourhoods area and Suburban Area. Development in the Suburban Area is subject to water, sanitary, roads and related, and storm/watercourse services DCs. While the Central Neighbourhoods are not subject to these charges, an Intensification Allowance DC is levied which pays for the capital cost of additional engineering service capacity and upgrades for development and redevelopment in this area. This approach results in lower overall DCs in the Central Neighbourhoods than in the Suburban Area.
- **Brantford** takes a different approach whereby the identified Intensification Area is subject to an additional Intensification Stormwater DC. The Intensification Stormwater DC reflects that much of the stormwater servicing outside of the Intensification Area is provided directly by developers. As such, development within the Intensification Area is generally subject to higher DC rates to pay for City-emplaced infrastructure, although the costs are offset by generally lower local servicing responsibilities. It is noted that Brantford also offers discounts on engineered services within the Infill Area: development that is located within both the Infill Area and an Intensification Area benefits from this discount, which acts as an incentive for development, but remains subject to the fill Intensification Stormwater charge.

iv. Option 4: Service Area-Based

Some municipalities have a number of distinct water, wastewater, and/or stormwater service areas, and levy their engineered services DCs on this basis. This approach is appropriate where the service areas are distinct and clearly delineated, and where substantial cost differences exist between the service areas. Generally, area rating should be limited to linear infrastructure while water and wastewater supply and treatment should remain municipal-wide. It is noted that this approach can be more complex and administratively onerous than the other approaches discussed in this memorandum.

Some examples of this service area-based approach include the following:

- **Innisfil** maintains five distinct water and wastewater service areas. Water distribution and wastewater collection DCs are calculated separately for each of these areas. Supply and treatment DCs are generally charged on a Town-wide basis, as they are driven by overall population and employment growth. The exception is the Cookstown service area, which has its own wastewater treatment facility, and therefore a distinct charge is calculated and development in the area is not subject to the Town-wide Wastewater Treatment DC.
- In **Peterborough**, eight area-specific DC areas are maintained with distinct DCs calculated for the provision of sanitary trunk sewers, sewage pumping stations, planning and servicing studies, and stormwater management facilities. All general services, sewage treatment, roads, and other City-wide engineering projects are recovered for through uniform City-wide DC rates.
- Similarly, **The Blue Mountains** has 11 distinct service areas for area-specific water and wastewater DCs. All general services DCs and roads and related DCs are levied on a uniform Town-wide basis.

v. Option 5: Add Area Rate to future UGB Expansion Areas

The City may also consider introducing area rating within planned UGB expansion areas where servicing needs to be extended in order to accommodate anticipated development. A number of municipalities levy area-specific DCs for water, wastewater, and stormwater servicing in new greenfield areas. The cost of providing engineered services in new urban areas can be significantly higher than existing urban areas that benefit from existing networks of linear engineered services infrastructure. As such, the DCs calculated in these areas are typically higher than municipal-wide rates, and ensure that development within the existing urban area is not burdened by these costs.

Some examples of area-specific DCs in new urban areas included the following:

- **Windsor**'s Sandwich South Planning District covers 2,530 hectares of land that was transferred from the Town of Tecumseh in 2003 and remains largely unserviced and undeveloped. In 2018, the City introduced area-specific DCs for water, sanitary sewer (collection), storm and drains, and roads and related services. Supply and treatment continue to be funded through uniform City-wide DCs, along with all general services. The area-specific DCs will assist the City in funding the significant upfront costs required to enable development to occur in the area.
- **Brantford** is currently in the process of introducing area-specific DCs for its urban boundary expansion lands in order to fund the required water, wastewater, and stormwater servicing infrastructure. Area rating is also proposed to fund a small number of roads with localized benefit; the by-law may also be used by the City to facilitate front-end funding arrangements with developers. Development in the expansion lands will also continue to be subject to the City-wide general services and engineered services DCs, in addition to the area-specific rates.

E. CONCLUSIONS AND NEXT STEPS

The options presented above are intended to guide ongoing discussions among City staff, external stakeholders, and Council. Through these discussions, should there be interest in pursuing a new approach to area rating, analysis should be undertaken as part of the 2025 DC Background Study process to evaluate the selected approach further and test potential DC rate impacts to support an informed decision.

In addition to these area rating options, the City may also consider DC discounts, reductions or exemptions in central areas in order to incentivize development. However, it is noted that such an incentive or subsidy would not be revenue neutral, and the City would need to fund the revenue loss through other revenue sources, such as property taxes and utility rates. It is noted that the City currently provides full DC reimbursements in certain areas through the Downtown and Old East Village Community Improvement Plans.